

June 29, 2006

FOMC statement

For immediate release

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5-1/4 percent.

Recent indicators suggest that economic growth is moderating from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.

Readings on core inflation have been elevated in recent months. Ongoing productivity gains have held down the rise in unit labor costs, and inflation expectations remain contained. However, the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures.

Although the moderation in the growth of aggregate demand should help to limit inflation pressures over time, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information. In any event, the Committee will respond to changes in economic prospects as needed to support the attainment of its objectives.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Susan S. Bies; Jack Guynn; Donald L. Kohn; Randall S. Kroszner; Jeffrey M. Lacker; Sandra Pianalto; Kevin M. Warsh; and Janet L. Yellen.

In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate to 6-1/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas.

Last Update: June 29, 2006